

Milton Friedman



Friedman's main claim:

The only responsibility of corporations is to increase their profits while acting within the bounds of the law and “ethical customs.”

Three Main Arguments

1. The CEO responsibility argument: Only CEO's, not corporations, have responsibilities. Their responsibility is to stockholders, who have typically hired them to increase the price of the stock.
2. The Taxation argument: When a corporation supports social ends at its own cost, this is tantamount to taxing its employees, shareholders, and customers without representation.
1. The ignorance argument: CEO's do not have the knowledge necessary to pursue social ends. They should leave this to elected officials and experts.

Problems with Friedman's Main Claim

- Friedman argues that a business' only responsibility is to increase its profits while operating within the bounds of the law and ethical customs.

(A) What about the fact that many businesses help fund large lobbies in order to influence the laws in the USA?

(B) What does Friedman mean by “ethical customs”?

The CEO Responsibility Argument (CRA)

- 1. Corporations do not have responsibilities, only individuals (CEO's, managers, businessmen) have responsibilities.
- 2. CEO's have made a contract with their shareholders to manage the company so as to increase its profits, so CEO's have a responsibility to make decisions which will do so.
- 3. CEO's do not have a responsibility to promote social welfare.

Objection to CRA

- The claim that only individuals, and not corporations, can have responsibilities is troubling.
- It rests on the claim that corporations are not persons, and only persons can have responsibilities.

There are two main problems with this claim.

1. It's not clear that corporations are not something beyond the individuals who compose them.

1. It makes no less sense to say that corporations are persons with responsibilities than it does to say that they are persons with rights.

-Corporations benefit largely from being recognized as persons with rights

- If we treat corporations as persons with rights, we should treat them as persons with responsibilities, for the sake of consistency.

A Possible Reply

Friedman might accept that corporations are not persons with rights, but claim that it is in our interest to grant them rights anyway.

But, why not think that it's in our best interest to hold that corporations have responsibilities as well?

The Taxation Argument

1. When a CEO promotes public projects with company money, he is essentially taxing his shareholders, employees, and/or customers without representation.

2. Taxation without representation is wrong.

3. A CEO should not devote company money to support projects which promote the public good.

Whether or not money is spent on public projects is a decision for elected officials, not corporations or CEOs.

Objection to the Taxation Argument

- A CEO spending corporate money on public projects is not tantamount to taxation without representation.
- No one is forced to invest, work for, or spend money on the corporation and its products

Are there some other reasons it might be wrong for CEOs to use corporate money to promote social projects?

It violates the rights of shareholders, employees, or customers.

But why should we think that they have a right to profit, earn more, or save money at the expense of others?

Loyalty requires the corporation to favor the interests of its employees, shareholders, and customers.

This is true only on an implausible interpretation of loyalty which requires that we prefer benefiting those to whom we're loyal at the cost of those to whom we are not.

Perhaps it would just be better/more legitimate to leave spending and regulation in the name of social good in the hands of elected officials. This solution seems untenable given the influence of lobbies and the lack of information that is available to voters in this country.

The Ignorance Argument

- CEOs do not have the knowledge to enable them to achieve the best social outcomes.
- They should stick to their expertise—increasing profits— and let others worry about public welfare.

Response to the Ignorance Argument

- CEOs can hire experts who do know how to produce the best outcome
- The solutions to some of the issues they face are obvious.

Conclusion

- Friedman's arguments do not clearly support his claim that corporations have no social responsibilities
- We still have to argue that corporations do have such responsibilities, and specify what these responsibilities entail.
- In doing so we need to take into consideration Friedman's point that CEO's have obligations to their stockholders. What social obligations they have must be somewhat constrained by this.